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March 3, 1997

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Federal Communications Commission
Office of Secretary

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

RE: Notification of Oral Ex Parte Communication: Access Charge Reform
CC Docket No. 96-262

Dear Mr. Caton:

Today, on March 3, 1997, Paul Kouroupas, Vice President-Eastern Region Regulatory Affairs, Teresa Marrero, Senior Regulatory Counsel, and Judith Herrman, Manager-Federal Regulatory Affairs, met with Richard Lerner, Claudia Fox, Aaron Goldschmidt, Doug Slotten, Richard Cameron, Brad Wimmer, Belinda Garrett, and Chris Barnekov of the Competitive Pricing Division regarding Teleport Communications Group's recommendations for access charge reform. The attached document was used as an outline of the discussion; thus, these pages should not be counted toward the ex parte page limit for this proceeding. An original and one copy of this letter are being submitted in accordance with Sec. 1.1206(a)(b) of the Commission's rules.

Thank you very much for your assistance in this matter.

Sincerely,

Judith E. Herrman
Manager, Federal Regulatory Affairs

cc: Richard Lerner
Claudia Fox
Aaron Goldschmidt
Doug Slotten
Richard Cameron
Brad Wimmer
Belinda Garrett
Chris Barnekov

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FUNDAMENTAL PRINCIPLES OF SWITCHED ACCESS REFORM

- **SWITCHED ACCESS RULES AFFORD THE FCC AN EFFECTIVE MECHANISM TO DIRECT THE COURSE OF LOCAL EXCHANGE COMPETITION**
 - **SWITCHED ACCESS CAN BE THE CATALYST FOR FACILITIES-BASED LOCAL EXCHANGE COMPETITION IN THE SAME WAY THAT SPECIAL ACCESS WAS THE CATALYST FOR LOCAL PRIVATE LINE AND SPECIAL SERVICES COMPETITION**
- **FCC'S CURRENT RULES ASSUME A MONOPOLY LOCAL EXCHANGE MARKET AND -- PROBABLY UNINTENTIONALLY -- REINFORCE THE ILEC MONOPOLY AND DISCOURAGE EFFICIENT COMPETITION BY CLECS**
 - **I.E., RIC, BI-FURCATED LOOP COST RECOVERY, "VIRTUAL ROUTING" OF TRANSPORT**
- **SWITCHED ACCESS REFORM PROVIDES THE COMMISSION WITH HISTORIC OPPORTUNITY TO ENCOURAGE BROAD, FACILITIES-BASED LOCAL EXCHANGE COMPETITION**
 - **MINIMALLY, ELIMINATE THE MONOPOLY-ERA POLICIES WHICH HAVE DISCOURAGED SWITCHED ACCESS COMPETITION AND DAMPENED THE CATALYTIC EFFECT ON LOCAL EXCHANGE**
 - **STRENGTHEN THE CATALYST AND REALLY REFORM ACCESS PRICES BY ALLOWING ILEC COSTS TO BE SUBJECT TO COMPETITION WHEREVER POSSIBLE**
 - **ONLY PRESCRIBE RATES IN MARKET AREAS AND FOR RATE ELEMENTS WHERE COMPETITION FAILS OR IS NOT LIKELY TO DEVELOP**

BREAKING THE LOCAL LOOP BOTTLENECK

THE COMMISSION'S BEST TOOL FOR REMOVING THE GREATEST OBSTACLE TO FACILITIES-BASED COMPETITION, THE LOCAL LOOP BOTTLENECK, IS THE ELIMINATION OF THE BIFURCATED RECOVERY OF LOOP COSTS

- **RECOVERY OF FULL LOOP COSTS FROM A SINGLE ENTITY (SLC CHARGE) ENCOURAGES MARKET-BASED COMPETITION BECAUSE COSTS ARE NOT HIDDEN FROM THE END USER AND ARE, THEREFORE, CLEARLY ADDRESSABLE FOR COMPETITION**
- **RECOVERY OF LOCAL LOOP COSTS FROM TWO SEPARATE ENTITIES DISCOURAGES LOCAL LOOP COMPETITION BECAUSE:**
 - **A COMPETITOR WOULD NEED TO "WIN OVER" TWO CUSTOMERS TO JUSTIFY BUILDING THE LOCAL LOOP -- THE IXC AND THE END USER**
 - **HIDES PART OF THE LOOP CHARGES FROM THE END USER (THOSE RECOVERED THROUGH FLAT RATE OR VOLUME SENSITIVE CCL)**
- **COMMISSION SHOULD ELIMINATE CCL ON MULTI-LINE USERS AND ALLOW ILECS TO RECOVER THOSE COSTS THROUGH INCREASED SLC**
- **COMMISSION SHOULD, IN EVERY INSTANCE POSSIBLE, ASSIGN ENTIRE COST OF A SINGLE LOOP FACILITY TO END USERS**

RESIDUAL INTERCONNECTION CHARGE

**ELIMINATING THE UNNECESSARY AND ANTICOMPETITIVE
RESIDUAL INTERCONNECTION CHARGE (RIC) WILL HAVE A CATALYTIC
EFFECT ON THE DEVELOPMENT OF TANDEM COMPETITION
WHICH, IN TURN, CREATES THE BASIS FOR FACILITIES-BASED
LOCAL EXCHANGE COMPETITION**

- **COMPETITION WILL REFORM TANDEM RATES QUICKLY AND EFFICIENTLY IF ILEC RATES ARE NOT ARTIFICIALLY SKEWED**
- **RIC CHARGES ARE INAPPROPRIATELY ASSOCIATED WITH END OFFICE**
- **COMPTEL DECISION MANDATES THAT THE PORTION OF THE RIC ASSOCIATED WITH THE TANDEM MUST BE REALLOCATED TO TANDEM SWITCHING RATES**
- **OTHER IDENTIFIABLE PORTIONS OF THE RIC SHOULD BE REASSIGNED TO:**
 - **TANDEM TRANSPORT**
 - **ELEMENTS SPECIFICALLY ADDRESSABLE BY COMPETITION**
- **REMAINING RESIDUAL COSTS, NOT READILY IDENTIFIABLE, SHOULD BE APPORTIONED USING A BROADLY BASED UNIFORM SURCHARGE ON ALL TRANSPORT SERVICES**
- ***IF THE RIC CONTINUES TO BE INAPPROPRIATELY ASSIGNED TO THE END OFFICE, THEN AS THE COLORADO COMMISSION HAS MANDATED, ILECS SHOULD NOT BE ALLOWED TO COLLECT THE RIC CHARGES FROM FACILITIES-BASED CLECS THAT PROVIDE THEIR OWN SWITCHED ACCESS TRANSPORT FACILITIES***

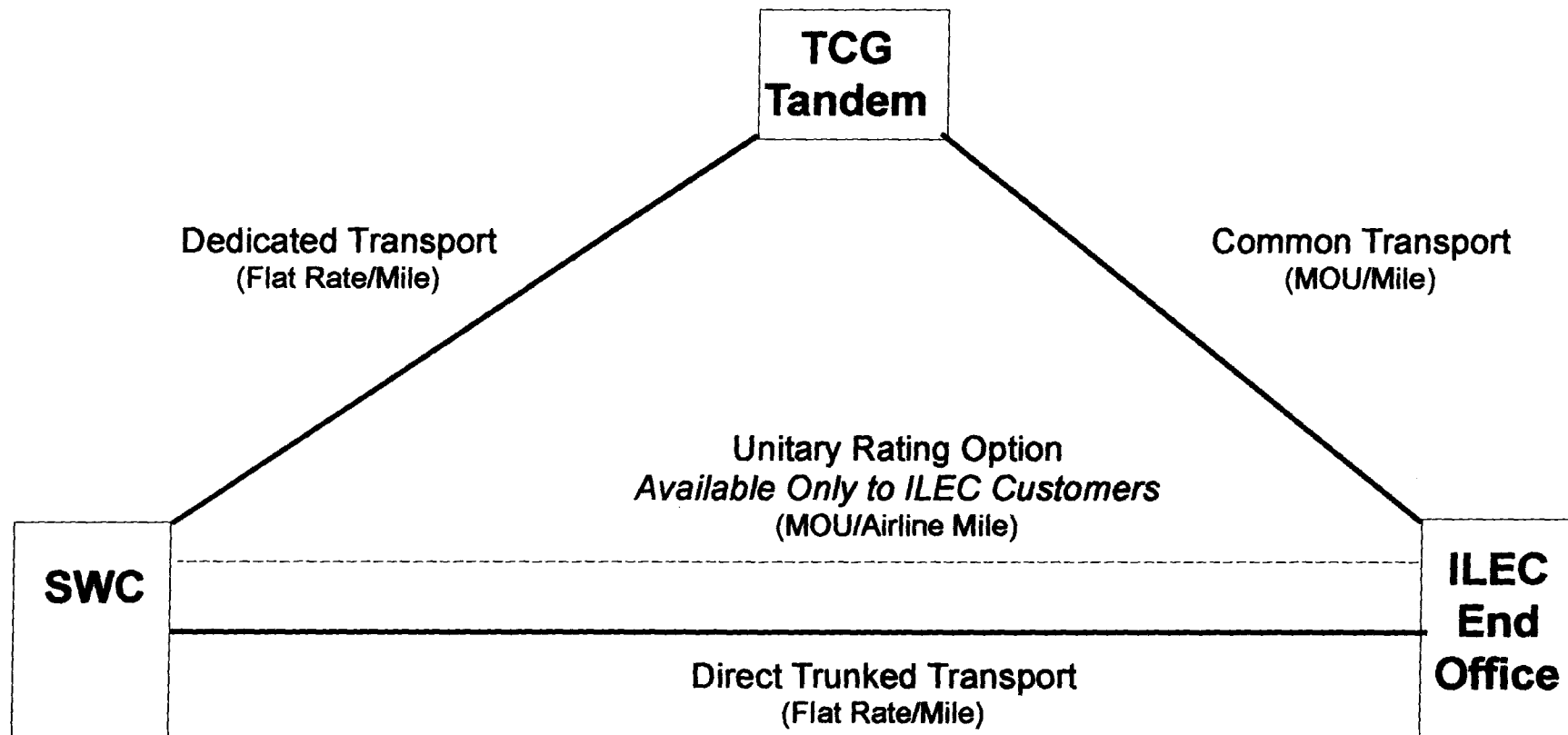
TANDEM TRANSPORT

**TO ACCURATELY RELATE SWITCHED ACCESS
RATES WITH ASSOCIATED COSTS, THE COMMISSION MUST
ELIMINATE THE OPTION TO RATE TANDEM TRANSPORT
AS IF ONLY COMMON TRANSPORT IS UTILIZED**

- **TANDEM TRANSPORT CONSISTS OF TWO DISTINCT TRANSPORT FACILITIES -- ONE DEDICATED -- FROM THE SERVING WIRE CENTER TO THE TANDEM SWITCH; THE OTHER COMMON -- FROM THE TANDEM TO EO SWITCH; EACH SHOULD BE PRICED AS SUCH.**
- **SMALL IXCS WILL NOT BE HARMED BY A BIFURCATED PRICING MECHANISM BECAUSE OTHER COMMISSION PROPOSALS TO FLAT RATE NON-TRAFFIC SENSITIVE SWITCHING COSTS -- I.E. PORTS -- WILL OFFER A NATURAL, COMPETITIVE REPLACEMENT TO THE HISTORIC POLICY ALLOWING SMALL IXCS TO OPTION TO REDUCE THEIR TRANSPORT COSTS**
- **A BIFURCATED PRICING MECHANISM BALANCES THE INTERESTS OF FULLY DEVELOPING SWITCHED ACCESS COMPETITION FOR ALL SWITCHED ACCESS ELEMENTS WITH THE INTERESTS OF FOSTERING LONG DISTANCE COMPETITION**

Tandem Transport Must Be Competitive

**TCG Cannot Match Below-Cost ILEC Pricing
of Unitary Rating Option for Tandem Transport**



MARKET-BASED DEREGULATION

**PREMATURE DEREGULATION OF ILEC ACCESS CHARGES
WILL DISCOURAGE COST-BASED PRICING AND
WILL INHIBIT SWITCHED ACCESS AND LOCAL COMPETITION.**

- **PROPOSED "POTENTIAL COMPETITION" THRESHOLD IS SO LOW THAT IT WOULD SUBSTANTIALLY AND PREMATURELY DEREGULATE ILECS WITHOUT ANY EFFECTIVE COMPETITION**
- **DEREGULATION OF SWITCHED ACCESS MUST OCCUR IN A STEP-BY-STEP APPROACH IN ORDER TO INCREMENTALLY EVALUATE THE SUCCESS OR FAILURE OF SPECIFIC REFORMS.**
 - **SIMULTANEOUS REFORM OF STRUCTURE AND DEREGULATION OF PRICES WOULD LIMIT THE ABILITY TO "TWEAK" THE PROCESS BECAUSE IMPACT OF STRUCTURAL REFORMS AND DEREGULATION WOULD BE INDISTINGUISHABLE FROM ONE ANOTHER**
 - **COMMISSION SHOULD NOT DEPART FROM SUCCESSFUL STEP-BY-STEP DEREGULATION IT HAS FOLLOWED IN THE PAST**
- **THREE PHASE DEREGULATION WOULD PERMIT THE COMMISSION TO ACCURATELY ASSESS EFFECTIVENESS OF REFORMS PRIOR TO IMPLEMENTING NEXT STEPS**
 - **FIRST, IMPLEMENT RATE STRUCTURE REFORMS COINCIDENT WITH CHANGES IN UNIVERSAL SERVICE POLICIES.**
 - **SECOND, AFTER ASSESSING SUCCESS OF REFORMS, IMPLEMENT SEPARATIONS REFORM**
 - **THIRD, AFTER ASSURING THAT THE FIRST AND SECOND STEPS HAVE SUCCESSFULLY BROUGHT SWITCHED ACCESS RATES CLOSER TO COST, BEGIN MARKET-BASED DEREGULATION**